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Paving a Rough Road to Vilnius: Russia's Preventive Punishment of Its "Near Abroad"

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Before the Eastern Partnership summit in Vilnius at the end of November, Russia seeks to persuade the "common neighbourhood" to abstain from initialling or signing Association Agreements with the EU. By imposing targeted economic restrictions, Russia has relied on coercive measures rather than incentives for Ukraine and Moldova. Conversely, Armenia agreed to join the Customs Union after Russia backed its security commitments with loans and infrastructure projects. A similar approach might be in store for the others, although the secretive visit of Ukraine's president to Russia on 9 November has yielded no concessions as yet. The EU could consider options for helping Eastern Partnership countries mitigate their external vulnerabilities after the Vilnius summit.

The Eastern Partnership summit in Vilnius at the end of November might entail the initialling of Association Agreements with Moldova and Georgia and signing one with Ukraine. Russia perceives this outcome as a threat to its standing in what it calls the "Near Abroad," as implementation of the agreements would herald the economic liberalisation of those countries based on EU regulations, in particular eventual convergence of their energy markets with the EU. Thus far, Russia has attempted to address each of the three key components of the Eastern Partnership: economic integration, human mobility and sector cooperation. In some cases, Russia raised the stakes by adding security provisions to this diverse mix of policy tools.

Economic Disintegration. Russia's economic pressure on Moldova and Ukraine followed two patterns. First, Russian restrictions have been limited to specific sectors of the target countries' economies rather than overarching application to all exporters. For example, obstacles created for Ukrainian exports of processed food products, steel, and rail cars are unlikely to cause severe disruptions in the Russian market, given the ample availability of substitutes from alternative suppliers. In Moldova's case, the Russian restrictions focused on two major exports, the first, fruit and vegetables, which account for about 10% of Moldova's total exports, and the second, alcoholic drinks (another 10% of exports), both of which could be imported from elsewhere.

Second, Russia has relied on the stark asymmetry that characterizes bilateral trade with its neighbouring countries. Russia gains proportionately smaller revenues from exporting finished goods to the "Near Abroad" than these countries gain from their Russia-bound exports. This asymmetry effectively allows Russia to forego some foreign-currency losses if any of its neighbours decided to impose retaliatory measures against Russian exporters.

In response to Russia's trade restrictions, the EU has offered compensatory measures. The European Commission proposed opening the EU market, for example, by cancelling the quota on Moldovan wine exports to the EU ahead of the DCFTA implementation. Likewise, the EU promised to assist Ukraine in three major ways: support in the WTO, provisional application of the Deep and Comprehensive Free Trade Agreement (DCFTA), and the release of €600 million in macrofinancial assistance.

Human Factor. Russia's use of another tool, access to its labour market, has been more limited considering the apparent divergence among its policymakers spurred by the current domestic migration debate. Although the country's leadership expressed reluctance to impose a visa regime with the CIS countries, Russia's border authorities were reported to have prohibited entry to thousands of Moldovan labour migrants.

Potentially, the tightening of Russia's migration regime could cause serious damage to both the economic welfare and social stability of Moldova and Armenia. For instance, more than 700,000 Moldovans (i.e., 20% of the population) are estimated to work abroad, with Russia accounting for about half of them. Remittances from migrant workers equal about 15% of Moldova's GDP.

However, the comparatively loose border regime within the CIS makes a systematic application of migration controls as a pressure tool rather unwieldy. First of all, as the Russian "experiment" with Georgian migrants showed in the wake of the 2008 war, it is impossible to expel all the migrants overnight and keep the border closed if there are alternatives that involve travelling across countries with which Russia has no border controls (such as Belarus). Second, the expulsion of migrants might be politically detrimental as "outcasts" from Russia's labour market are more likely to support pro-European political parties.

(In)security Risks. Russia succeeded in bringing Armenia into the Customs Union fold for two major reasons. First, Russia could reiterate security commitments to Armenia's President Serzh Sargsyan, who fought in the Nagorno-Karabakh conflict and later served as Armenia's Defence Minister. In the first half of 2013, Russia sold $4 billion worth of arms to Azerbaijan. These sales triggered major concerns in Armenia, whose military expenditures in 2012 barely exceeded $400 million. Russia thus was able to pledge to stop its arms trade with Azerbaijan as a potent negotiating tool with Yerevan.

At the same time, Russia was able to reassure the Armenian leadership of its commitments as a security provider by offering support for the long-term infrastructure and energy projects underpinned by that security regime. Russia's offer of sectoral cooperation involved its state enterprises. Rosneft initiated talks over building production facilities with Nairit, a chemicals producer. Also, Rosatom promised assistance in prolonging the operation of the Metsamor nuclear power plant, which supplies about 40% of Armenia's electricity but which had been scheduled for closure.

Besides these offers, Russia has managed to provide credible financial backing for major infrastructure projects. In early September, the Astana-based Eurasian Development Bank offered a $100-million loan from its Anti-Crisis Fund (ACF), which Armenia can use to build a highway on a section of the North-South transport corridor project, initiated by Russia back in 2000. The EU has a stake there, too: the European Investment Bank (EIB) had committed €60 million to this project in March 2013. Russia can promise more loans: according to the credit limits under the ACF, Armenia is allocated up to $1.1 billion (about 13% of the fund's total). And last, Armenia was promised a return to lower gas prices ($180 per thousand cubic metres), which is likely to alleviate pressure on its substantial trade deficit (imports were twice the value of exports in 2012). Thus, by combining security deterrence with tangible material incentives, Russia managed to persuade Armenia to join the Customs Union.

In contrast, Russia's reliance almost exclusively on coercion has produced little impact in Moldova, where the EU, as a competing actor, retains equivalent countermeasures. Russia's long-severed ties with Georgia and the stalemate over Georgia's breakaway republics have significantly hampered the emergence of any credible Russian alternative to an Association Agreement with the EU. Hence, some statements by Georgia's officials appear to be an attempt to retain bargaining room ahead of the Vilnius summit rather than an actual admission of a "Eurasian" alternative for Georgia. Apart from poorly veiled threats concerning gas supplies to Moldova and Gazprom's recent discounts for gas supplies to Group DF in Ukraine, Russia has failed to offer viable incentives that would underpin the energy security of these countries.

Conclusions and Recommendations. Russia's attempts to pursue "preventive punishment" have unveiled its limits. Its exercise of economic power is likely to be viable only provided that the package of disincentives is harmful enough to the actual decision-makers in the neighbouring countries, while the alternatives offered by Russia would have to outweigh the benefits offered by the Association Agreements with the EU. Such an outcome—accession to Russia's Customs Union—was achieved in Armenia's case but is unlikely to be repeated in the other EaP countries before the Vilnius summit.

The EU, including Poland, should analyse Russia's policies and prepare for various scenarios in an economic stand-off, in particular the most adverse ones to address the vulnerabilities of Ukraine, Moldova and Georgia. Of equal importance is the need for a decisive reaction in case of a possible crisis in EU–Russia relations, as well as a potential economic downturn in Ukraine and Moldova, which would be fraught with social repercussions. The EC could enact the provisional application of the DCFTA to sustain the sectors particularly vulnerable to Russia's trade restrictions. Second, in addition to the planned visa liberalisation, Member States could discuss ways of opening their labour markets to some categories of Moldovans, similar to the model currently applied by Poland. Last but not least, the European Investment Bank should step up implementation of the signed energy and transport projects in Moldova and Georgia under its Eastern Partners Facility (EPF).

Last but not least, diplomatic efforts should be deployed to persuade Russian decision-makers that the Association Agreement presents no threat to Russia's interests, and that attempts to exert pressure on Ukraine and Moldova are fraught with a substantial worsening of relations with the EU.